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24 September 2012

By email

Mr John Hall
Queensland Competition Authority
GPO Box 2257
Brisbane, QLD 4001

rail@qca.org.au

Dear Mr Hall,

QCA draft decision in response to QR Network Electric Traction Services DAAU

We welcome this opportunity to respond to the Authority's draft decision.

Rio Tinto Coal Australia (**RTCA**) supports the Authority's draft decision to reject the Electric Services Draft Amending Access Undertaking (**DAAU**).

In doing so we refer to, and reiterate, our earlier submission on this issue on 16 April 2012, including that:

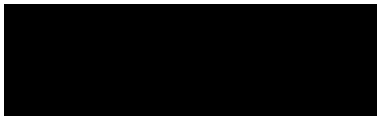
- RTCA does not accept that electric traction is a more efficient traction option than diesel or mixed traction and, to the contrary, consider that diesel is a better long term solution (evidenced by its use in both the Pilbara and Hunter Valley). We note in this regard the various matters set out in part 5 of our earlier submission.
- The DAAU would have a significant and disruptive impact on the existing regulatory pricing structure. Decisions about investment in fleet technology are long term sunk investments, and as such it is critical that the regulatory regime provides long term pricing certainty and stability.
- The proposed modifications to AT₅ would have a prejudicial effect on competition in the above rail market, given that Pacific National's entry into Queensland in 2009 had been premised on the operation of diesel trains and so the DAAU would be likely to have a detrimental effect on its ability to compete.
- The pricing structure proposed in the DAAU does not reflect efficient costs, in that it constitutes an inefficient cross-subsidy across systems (from Goonyella to Blackwater) and traction types (from diesel to electric).
- The DAAU would result in inefficient investment incentives for QR Network, by enabling it to avoid optimisation of inefficient assets. QR Network invested substantial amounts in electric trains after 2006, despite being aware of the declining use of and preference for those trains by customers. Indeed, QR Network in its 2006 submission in the UT2 process explicitly recognised the risk of optimisation if demand for electric assets did not increase.

The DAAU provides further evidence of the significant problems which exist with the current master planning (**CRIMP**) process. The CRIMP process is dysfunctional, in that it lacks detail, transparency, is irregular, and does not provide for the proper input and guidance of coal producers. In this case, for example, QR Network failed to indicate to customers their intended changes to the electric traction charge at the time it sought approval for investment in electrification (or the impact this would be likely to have on traction choice). QR Network also made the investment decision despite system demand uncertainties. RTCA intends to provide more detailed submissions on necessary changes to the CRIMP and wider network capacity planning processes as part of the UT4 process, which it is hoped will help to reduce these unsatisfactory outcomes for all stakeholders in the future.

Finally, while QR Network has engaged with industry about a potential alternative approach to the electric traction issue, at this stage no agreement has been reached. In the circumstance, therefore, we remain strongly of the view that the Authority should reject the draft DAAU.

Please refer any questions in relation to this issue to Xiao Fan Zhuang on (07) 3625-5197 or to me on (07) 3625-5533.

Yours Sincerely,



Tim Renwick
General Manager - Infrastructure